General Report

World Economy still looks to be at risk

26.2.2010

Wherever we look at the world economy today, it would seem that there is a wave of risk and potential financial catastrophe. A large number of virtually bankrupt major sovereign states (US, UK, Spain, Italy, Greece, Japan and several others) is teetering atop a financial system that is bankrupt, temporarily kept alive with phony valuations and unlimited money printing. Increasingly, therefore, investors should want to exchange their paper money for gold. Strong recommendation; **Buy RIO Professional Investors Fund Ltd.** This fund continues to trade in the Gold, very successfully.

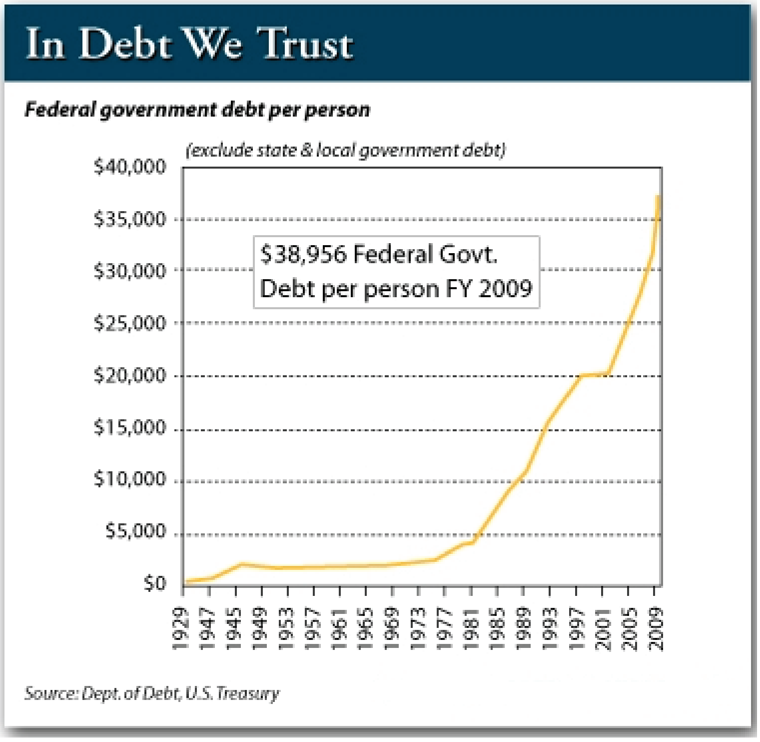
The above recommendation is perhaps underpinned by Governments, such as the US and the UK, who are committed to printing increasing amounts of declining-in-value paper money in order to finance their growing deficits. A consequence of this rescue mission could lead to a hyperinflationary depression in several countries, with a number of currencies then having little value. This highlights the opportunity to invest in RIO Professional Investors Fund Ltd, which is expected to benefit as currencies see volatility throughout 2010.

The list of countries at risk of technical bankruptcy is increasing. Portugal, Ireland, Greece and Spain used to be very much in the spot light with financial wows, but the number of countries has now grown significantly. The current main contenders, including the four above, are USA, UK, Japan, Spain, Italy, Greece, Ireland, France, Portugal, Baltic States, and Eastern Europe states. On a proper accounting basis all of these countries are already technically bankrupt in an operational sense, but since many nations can either print money, like the US and the UK, or increase their already high borrowings, like Greece and the Baltic States, they continue to function.

The problem is not just the current debt levels of these nations, because the operating deficits in all the countries are rising. Tax revenues are collapsing at the same time, while the governments' expenses for social charges are soaring. In the US for example the federal deficit in 2009 was $1.5 trillion (10.7% of GDP) and is forecast to stay around that level for many years. Out of 50 states only four are expected to have a balanced budget in 2010.

It took almost 200 years for US Federal debt to reach $1 trillion, which it did in 1981. In 2009 the debt increased by $1.9 trillion in just that year to $12.4 trillion. Currently, US Federal debt is six times what it collects in tax revenue every year. With debt exploding and tax revenues collapsing, there is no chance that the debt can ever be repaid with normal money.

The chart below shows the US Federal Debt per person. In the last ten years it has gone from $20,000 to $40,000. If we were to also include the present value of the government's future unfunded liabilities like Social Security and Medicare, the debt per person would soar to more than $250,000.



Therefore, the indebted governments of the world have two choices: continue to borrow and print money or reduce government spending. This is a lose-lose situation. Countries within the EU like Greece or Spain are introducing austerity programs that forecast their deficits to come down to 3% of GDP, which is the EU maximum deficit limit. These are totally unrealistic targets that are mainly based on an improvement in the economy. A close look shows that not one single country within the EU is below the 3% limit, not even Germany. Furthermore, the austerity programs would lead to such a major contraction of the economies that tax revenues would collapse, further exacerbating the plight of these countries.

The alternative is to print or borrow more money. Printing is not a luxury that individual EU members have, and borrowing is becoming increasingly expensive...or impossible. But the European Central Bank can print money and this is likely to be the path they will initially choose to 'save' Greece and possibly Spain. Countries like the US and the UK can still borrow and print money, which is what they will continue to do. With rising deficits, rising unemployment and the problems in the financial system re-emerging, they have no choice. We will see trillions of pounds and dollars printed in the next few years.

We shall also see trillions of pounds and dollars worth of new government securities but, in my opinion, the buyers of these government securities might start to become scarce. The rest of the world may dump their holdings of US and UK debt, which would result in both the dollar and the pound declining steeply and interest rates rising substantially. The effect of a collapsing currency would be a hyperinflationary depression. This is the outcome that the US and perhaps even the UK have to avoid.

In this report I would also point out that all the countries of the major trading currencies - the dollar, euro, pound and yen - have major economic problems that can only be resolved by massive money printing. Even a currency trader like myself, with many years of experience in trading the top four currencies, would be hard pushed to try to predict which currency would end up being the weakest out of the these four. But for certain there will be incredible volatility in currency markets in the next few years, although currency traders may benefit from short term trading opportunity in these conditions. Long term forecasting today is a different story. I predict that gold will benefit from such volatility, since many investors will again seek a safe haven from such unpalatable volatility. As such we are likely to see gold increase in value but, in order to benefit from this rise, there must be a continual reassessment of risk and market conditions. It is therefore advised that the simple solution, other than holding cash in the bank where there is little to no interest on offer and risk of currency devaluation, is to invest in RIO Professional Investors Fund Ltd, which holds/trades gold on a regular basis.

The recent correction in gold reflects profit taking and weak hands getting out of speculative positions in the paper gold market. There has been virtually no selling in the physical market. So far gold has gone up more than four times in the last ten years in a stealth bull market that very few investors have participated in. There is no other asset during this period that has given such an excellent return whilst at the same time providing the highest form of wealth protection (provided it is physical gold).

The chart shows gold in 2009 dollars adjusted for inflation, as calculated by Shadowstats.com. (Shadowstats.com is a superb service that analyzes government statistics on a true basis, taking out all adjustments, revisions and other manipulations). It makes interesting reading.

As to the outlook for 2010 it will vary depending on which country you are looking at. However, 2010 is likely to be a year of divergence with much volatility to be seen. Members should also note that the rally in risk assets seen during 2009 has been driven by an abundance of virtually-free central bank credit and unprecedented peacetime spending spree by governments.

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Chairman